

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

November 16, 2009
6:00 p.m.

Council Conference Room
Bellevue, Washington

PRESENT: Mayor Degginger, Deputy Mayor Balducci, and Councilmembers Bonincontri, Chelminiak¹, Creighton, Davidson, and Lee

ABSENT: None.

1. Executive Session

Deputy Mayor Balducci opened the meeting at 6:02 p.m. and declared recess to Executive Session for approximately 15 minutes to discuss one item of potential litigation.

The Study Session resumed at 6:28 p.m., with Mayor Degginger presiding.

2. Study Session

- (a) East Link Update – Report from Sound Transit on C9T Cost Estimate, Peer Review Panel, and Value Analysis Workshop

City Manager Steve Sarkozy opened discussion regarding the Sound Transit East Link light rail project, and noted that the focus of the presentation will be on the downtown C9T alternative (110th Avenue NE tunnel). Ric Ilgenfritz, Sound Transit, provided introductory remarks.

Don Billen, East Link Program Manager/Sound Transit, stated that the C9T tunnel alternative has an estimated cost of \$980 million (2007 dollars). Starting the tunnel on the east side of 112th Avenue would add approximately \$30 million to that cost. The cost of the preferred at-grade downtown alignment is estimated at \$700 million, or nearly \$300 million less than the C9T tunnel. The estimated cost of the 108th Avenue bored tunnel alternative is approximately \$500 million higher than the at-grade preferred alternative.

Mr. Billen reported that the at-grade peer review panel, jointly selected by Sound Transit and the City of Bellevue, held its first meetings in Bellevue on October 19 and 20. These meetings included a detailed review of design and modeling assumptions, and the group will meet again in

¹ Councilmember Chelminiak arrived at 6:08 p.m.

January. Mr. Billen said the panel suggested an at-grade option along 110th Avenue NE as well, which involves fewer intersections than the currently preferred at-grade alternative and eliminates the crossing of NE 8th Street. This alignment serves the hospital station preferred by the City of Bellevue. Another possible option shifts the alignment west to 108th Avenue and then east through Bellevue Transit Center. This option provides a good integration between buses and light rail.

Mr. Billen said a value analysis workshop involving Bellevue, Redmond, and Washington State Department of Transportation (WSDOT) participants was held at the end of October. This group recommended some design adjustments within the scope of the Sound Transit Board preferred alternative, which the technical team will assess. Additional modifications to the preferred alternative route were suggested and would require Board action to consider in the preliminary engineering phase.

Mr. Billen provided additional details on the value analysis recommendations. The group endorsed the B3 side-running concept along Bellevue Way, but suggested two significant changes to the option. The first is to utilize the median along 112th Avenue to Main Street, in part to take advantage of better soil conditions than those along the east side of 112th Avenue. The group further observed that staying on 112th Avenue north of SE 8th Street would be a more direct alignment, as well as less expensive because the rail could remain at street grade.

Additional recommendations affecting South Bellevue include the consideration of an at-grade station to reduce project costs, and a box culvert alignment in front of the Winters House to avoid relocation and the environmental process associated with moving a historic house. Mr. Billen said the value analysis group expressed concerns about the B3 alignment behind the Hilton Hotel and along I-405 including impacts to the salmon-bearing creek, the cost of the elevated guideway, and the overall proximity to the hotel. These concerns reinforced the group's observations that staying on 112th Avenue would be more direct and less costly.

Mr. Billen recalled that at the last briefing, staff explained that the effect of the recession on Sound Transit has been to remove the 15 percent reserves from the project budgets. He reiterated that the least expensive downtown tunnel alternative requires approximately \$300 million in additional funding in 2007 dollars, which will be higher in year-of-expenditure dollars. He explained that the value analysis recommendations are important to consider as a way to potentially restore a project reserve. However, the cost savings would be too limited to positively affect funding for a downtown Bellevue tunnel or service to downtown Redmond.

Mr. Billen said the Sound Transit Board has asked the City of Bellevue to provide a presentation on December 10 regarding additional tunnel funding options. Sound Transit is continuing its outreach in the downtown including a public workshop on November 18 at Bellevue City Hall and expanded discussions with business and neighborhood groups. The Board is scheduled to reevaluate the downtown preferred alternative in the first quarter of 2010.

Councilmember Davidson requested a comparison of the Beacon Hill tunnel with a downtown Bellevue tunnel. Mr. Ilgenfritz said the cost of the Beacon Hill tunnel and station was

approximately \$300 million in 2001 dollars. The Beacon Hill tunnel is approximately one mile long, and the C9T tunnel is 2,000 feet long. Mr. Billen clarified that the \$300 million cost just mentioned for the Beacon Hill tunnel reflects construction costs only. Cost estimates under discussion for the East Link alternatives include real estate, design, administrative, and other costs. These non-construction costs typically represent approximately 40 percent of total project costs.

Dr. Davidson requested a written memo to clarify the cost comparison, and specifically the cost per mile in comparable dollars. He noted that the Beacon Hill tunnel was paid for by Sound Transit and the federal government, and he senses resistance to funding a tunnel in Bellevue.

Councilmember Lee expressed concern about the predictability of the cost estimates. Mr. Ilgenfritz said that the utility of the numbers is in their comparative value. The cost estimates are intended to reflect the cost difference between alternatives in relative terms. Additional engineering and design work will produce more accurate project costs.

Deputy Mayor Balducci stated it is encouraging to see the consideration of alternatives that might better meet Bellevue's needs. In comparing the Beacon Hill and Bellevue tunnels, she observed that the Bellevue tunnel is less than half the distance, yet the overall cost comes down by only approximately two-fifths. Ms. Balducci said it would be helpful to be able to identify the components of the new cost estimate.

Ms. Balducci questioned the extent of Sound Transit staff's focus on the preferred alternatives versus the newly identified potential alternatives. Mr. Ilgenfritz said the adopted preference has not changed. The Sound Transit Board's preferred alternative is still C4A, with directed study on C3T. That direction has led staff to look at some additional options. Mr. Ilgenfritz noted that an early risk analysis for downtown Bellevue led to the suggestion to look at C9T. The Board then directed staff to look at C9T to bring the level of knowledge up to a comparable level of knowledge as the other alternatives. This additional study of C9T led to more ideas from the project team, and these have been presented tonight.

Mayor Degginger observed that he did not hear the value analysis group talking about modifications on alternatives C3T or C4A, other than the C4A turning at 6th Street. He questioned whether the value analysis group is focusing on changes that still involve going north of NE 6th Street through the downtown.

Mr. Billen stated that the group has not continued to study that option but has focused on the NE 6th Street crossing because that is of primary interest to the City. Sound Transit has done fairly extensive work on the C3T and C4A alternatives, and is trying to understand more information on the new alternatives. The assistance of City staff would be extremely valuable in helping Sound Transit understand how the new alternatives might perform from the City's perspective.

Councilmember Lee said he appreciates Sound Transit's efforts, but he is also disappointed that the agency seems to be looking at essentially the same preferred alternatives. He was looking forward to the study of additional modifications by the value analysis and peer review groups.

Mr. Lee said he appreciates the time that has been spent on this project, but he was hoping to identify better opportunities for cost savings.

Responding to Councilmember Chelminiak, Mr. Billen explained that the value analysis group favors an alignment along 112th Avenue from the south running north to Main Street, turning west to 110th Avenue, and ultimately traveling east on NE 6th Street.

Councilmember Chelminiak stated that the City has been clear about its interest in eliminating the use of 112th Avenue between SE 8th Street and Main Street. He further stated that a top priority of the Council is to locate stations in the downtown.

Dr. Davidson observed that the proposal to avoid the creek and wetlands around the Hilton Hotel appears to be inconsistent with the willingness to travel along sensitive environments along the Mercer Slough. Mr. Billen clarified that the specific concern is that the creek might have to be realigned if light rail travels along the route between the hotel and I-405, which is not the case for the other portions of the B3 side-running alternative.

Responding to Councilmember Creighton, Mr. Billen said the cornering involved in the downtown alignments is a challenge but feasible. The design criteria allows turns within a 100-foot radius for the at-grade alignment, although it will result in slower train speeds. In further response, Mr. Billen said the corners can be tighter at grade than in a tunnel.

Councilmember Bonincontri concurred with Mr. Chelminiak's comments that downtown stations and service are a primary objective. With regard to the at-grade alternatives, whether on 108th or 110th Avenue, Ms. Bonincontri said it is important to consider traffic associated with parking garages along these streets.

Mayor Degginger asked staff to continue to update the Council as it works with the community.

(b) 2009-2010 Mid-Biennium Budget

(1) Initial Presentation on Proposed Mid-Biennium Budget Update

Mr. Sarkozy commented that the City continues to experience negative budget impacts associated with the economic recession.

Finance Director Jan Hawn provided an overview of the presentation, and noted that Council adoption of the mid-biennium budget is scheduled for December 7. A public hearing will be held on November 23, as required by state law. The mid-biennium budget includes updates to the General Fund and Capital Investment Program (CIP) budgets, as well as the 2010 pay plans and 2010 property tax levy. Proposals related to the Mobility and Infrastructure Initiative include a three percent property tax levy and 1.5 percent storm and surface water rate increase.

Ms. Hawn recalled that staff has been closely monitoring the General Fund forecast throughout the recession. This outlook has been updated based on local economists' projections regarding

retail sales activity, job losses, personal income, housing markets, and consumer patterns. The General Fund forecast incorporates short-term actions to maintain expenditures within revised revenue estimates. The forecast reflects a revenue shortfall of \$8 million in 2011, which decreases to a gap of \$4 million by 2014. Deflation has helped to control some expenditures in terms of salaries and maintenance and operations costs. However, the City maintains its hiring freeze and tight control on expenditures.

Ms. Hawn explained that the mid-biennium update reflects relatively minor adjustments including a change to the Operating Grants and Donations Fund for unanticipated grants and technical adjustments to some staff positions. Next year's full budget process will require extensive discussion of policies, services, and projects, as well as the development of a long-term sustainable approach.

Ms. Hawn recalled that the 2009-2015 Capital Investment Program (CIP) Plan has a shortfall of \$96 million, or 27 percent of the total plan. The City has addressed the shortfall in part by delaying some projects, while proceeding with others to take advantage of the favorable bid environment. Three principles that have guided these decisions are to delay projects that are not time critical, move forward with life/safety projects, and continuing work on projects that are in the later stages of development.

Responding to Deputy Mayor Balducci, Ms. Hawn clarified that in September staff reported that the operating budget shortfall was \$13.9 million for 2009-2010. That has now increased to a shortfall of \$16.9 million for the two years, \$10.9 million of which applies to 2010. Ms. Balducci expressed concern that projections will continue to worsen. Ms. Hawn said the City's projections are based on the work of regional economists and the City's past experience. Staff monitors the situation closely in order to be able to respond quickly if revenues continue to decline.

Responding to Ms. Balducci, Ms. Hawn said discretionary expenditures include training (unless required to maintain a specific certification) and other items that the City can do without in the short term, but not in the long term.

Responding to Dr. Davidson, Budget Manager Jonathan Swift reminded the Council that the City is now on a modified accrual accounting system and therefore full 2009 actual data will not be available until the end of February. Bellevue is performing worse than many other jurisdictions, including the City of Seattle, with regard to sales tax collections.

Moving to the Mobility and Infrastructure Initiative Financing Plan, Ms. Hawn recalled that the plan included a three percent property tax increase and a storm/surface water rate increase. These revenues are targeted to fund certain high-priority capital projects. The \$299 million plan was endorsed in January, and since that time has experienced a projected revenue shortfall of approximately \$37 million. Strong management actions to address this shortfall have included proceeding only with critical projects, delaying the implementation of other projects, and developing a short-term action plan with Council.

Ms. Hawn reviewed that the financing plan includes a number of revenue sources to fund the \$299 million package including new taxes in the Bel-Red corridor to support redevelopment, grant funding, right-of-way dedication proceeds, storm drainage funds, incentive zoning fees, local improvement district (LID) assessments, impact fees, and a property tax increase (to fund bonds of \$105 million).

Transportation Director Goran Sparrman briefly reviewed a map of key projects funded in the Mobility and Infrastructure Plan. Two projects already underway are the 120th Avenue widening project and the design contract for the NE 4th Street extension. The City is in the consultant selection process for the first phase of the NE 15th/16th corridor. Another high-priority project is the extension of NE 6th Street, east to 120th Avenue. Mr. Sparrman said the City continues to pursue grants including funding for NE 4th Street.

Planning and Community Development Director Matt Terry noted that the City has obtained a \$12 million commitment from the State for funding toward the NE 4th Street and 120th Avenue project. Grants for this project are predicated on the City's ability to start construction in the 2011-2012 time frame. Mr. Terry explained that most of the revenues identified as primary sources of funding in the Mobility and Infrastructure Financing Plan were LID collections from existing property owners or economically sensitive revenues based on future development. Referring to page SS 2-54 of the meeting packet for the complete list of projects, Mr. Terry mentioned two additional near-term projects, the Bel-Red land acquisition already completed and the Metro site acquisition.

Dr. Davidson expressed an interest in going through the process of reviewing the priorities in the CIP Plan. He is concerned that the current financial constraints will begin to put pressure on the property tax.

Mr. Sarkozy said staff is looking at a series of short-term decisions in a constrained approach to spending for both the General Fund and the CIP Plan, preserving as much flexibility as possible for the Council into 2010. Staff proposes a complete look at both the General Fund and Capital Fund for 2010 and beyond. Much of 2010 will involve difficult decisions to rebalance the budget due to revenue shortfalls.

Mayor Degginger observed that the Council's key priorities have not changed. However, it is now necessary to review the relative weighting of these priorities, particularly for projects with the opportunity for grant funding.

Ms. Hawn briefly summarized the presentation, noting that next year's budget process will include a priority-based approach to establish long-term financial sustainability for the City.

Deputy Mayor Balducci noted the awkward timing of these discussions, given the seating of new Councilmembers this month. She encouraged staff to provide adequate information to these new Councilmembers in preparation for adoption of the mid-biennium budget. She has been struggling with this process because while only minor modifications are proposed to the 2010 budget document, a large portion of monies in the 2010 budget will not be spent because the

dollars are not there. She noted concerns regarding budget transparency, and stated that this is essentially a deprioritization exercise. Ms. Balducci observed that the public might not be aware of the millions of dollars in the CIP Plan that will not be available for expenditure. She thinks it is important to clearly communicate the budget impacts to residents in terms of projects that will not be completed.

Turning to the Mobility and Infrastructure Initiative, Ms. Balducci said the Council will be asked to take a tax vote by the end of the year. She stated the need to clearly understand the implications of taking that vote and of not taking that vote. Before Council takes that vote, she would like to review the original objectives of the 10-year financing plan, and to clearly understand the impacts of not fully funding the plan. Deputy Mayor Balducci asked staff to provide options for Council consideration, and to specify the impact of each on the average homeowner. Ms. Balducci requested a status report on the Supplemental CIP, including the original allocations, what has been spent to date, and whether any funds remain available. If additional expenditures are possible, Ms. Balducci said it is important to her that the Council maintain its original commitments in terms of priorities.

Mayor Degginger concurred that it would be helpful to review which projects that have been delivered. He recalled that several have been completed, on time and less costly than originally anticipated. Responding to Mr. Degginger, Ms. Hawn confirmed that the Supplemental CIP funds are bond funds, so the monies must be spent on capital projects within three years of bond issuance, or by February 2011. Mayor Degginger agrees with the importance of maintaining the plan's original priorities. He noted he has some concerns about the candidate projects, as listed on page SS 2-23 of the meeting packet.

Councilmember Chelminiak observed that it is important for the City, when it comes out of the recession, to be poised to react in terms of the capital budget and supporting renewed development. Being prepared for development enables the City to benefit from the tax revenues associated with construction and new businesses. He recalled the recession following September 11, 2001, and the rebound that by 2006 brought 8 million square feet of permitted construction. The increased tax revenue from this growth benefited the community and eliminated the City's structural deficit. Development permits have now fallen to 1996 levels. Councilmember Chelminiak said he strives to remain optimistic. However, he acknowledged that this is the time to review priorities, as well as the expectations of Bellevue citizens. He concurs with comments about the Supplemental CIP that the Council should stay on course with previous decisions and commitments.

Dr. Davidson commended the City Manager and staff for their budget management. He noted that ongoing financial discussions and decisions will continue to be complex and difficult.

Mayor Degginger observed that this Council has always been prudent in considering long-term investments and costs.

Mr. Degginger noted the public hearing scheduled for November 23, and budget adoption targeted for December 7.

(2) Draft Funding Agreement for PACE (Performing Arts Center Eastside)

Mr. Sarkozy opened discussion regarding the draft funding agreement for the Performing Arts Center Eastside (PACE).

Kate Berens, Deputy City Attorney, referred Council to the meeting packet materials and explained that staff is seeking direction about whether to proceed with the draft PACE funding agreement.

Deputy Mayor Balducci reviewed her understanding of the agreement. She recalled that in 2006, the Council identified \$2 million for the PACE capital contribution. Responding to Ms. Balducci, Ms. Hawn said the allocation anticipated that PACE would continue to raise its own capital. However, Ms. Hawn said the \$2 million commitment was not contingent upon PACE raising a specific amount of money.

Continuing, Ms. Balducci questioned the purpose in having a secured interest in another organization. Ms. Berens explained that the language addresses the requirement that the City cannot provide a gift of public funds. There are several ways that the public benefit test would be satisfied. If the earmarked funds are to be provided before completion of a PACE facility, the City must be prepared for the possibility of it not being constructed. The secured interest clause provides the necessary public benefit should this occur.

Deputy Mayor Balducci stated she has a hard time seeing the public interest in potentially owning plans for a building that does not get built. She questioned whether there is a more logical way to protect the public interest.

Ms. Berens said the Council could direct a different timing for the funding agreement. She acknowledged that there is some risk in providing the funding at this time.

Ms. Balducci said she would prefer to take on the risk and guard against it as much as possible, as opposed to having ownership in building plans which in the case of failure would result in the City owning plans that it does not intend to build.

Mayor Degginger commented that the ownership of architectural plans is essentially the ownership of intellectual property, and the City would therefore be in the first position on the ownership of the plans. Ms. Berens concurred. Mr. Degginger noted that this would protect the public's investment. He said this type of arrangement is consistent with the City's agreements with KidsQuest Museum and Bellevue Arts Museum.

Councilmember Chelminiak noted that other public entities have contributed to PACE. He questioned the interests that they hold in the organization. Ms. Berens said she is aware of 4Culture, which is an entity associated with King County. In that agreement, 4Culture has a secured interest in future fixtures, furniture, and equipment to be acquired by PACE. In further response to the Council, Ms. Berens said 4Culture's agreement with PACE is similar to the City's proposed agreement. 4Culture does not have an interest in the building plans.

Responding to Ms. Balducci, Ms. Berens said 4Culture has the same legal restrictions in terms of gifts of public funds.

Responding to Mr. Chelminiak, Ms. Berens said if a PACE facility is not constructed, 4Culture would have an unsecured creditors interest, just as the City would beyond ownership of the plans. In further response, Zemed Yitref, Investment and Debt Manager, said PACE's assets are a limited amount of improvement in fixtures (i.e., construction in progress).

Responding to Ms. Balducci, Mr. Sarkozy said PACE is seeking resolution by the end of the year. Ms. Balducci said she would like to review previous Council discussions on this issue, and to have additional information on the agreement with 4Culture.

Responding to Councilmember Lee, Mr. Yitref said security interests in this type of agreement are usually in the form of fixed assets (i.e., property), as is the case in the City's agreement with the Bellevue Arts Museum (BAM).

At 8:04 p.m., Mayor Degginger declared recess to the Regular Session.

Myrna L. Basich
City Clerk

/kaw